

May 9, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

**AUDIT RESPONSE - 2002-03 SHERIFF'S DEPARTMENT BUDGET STUDY INTERIM REPORT**

On March 14, 2003, as part of the 2002-03 Sheriff's Department Budget Study, Thompson, Cobb, Bazilio, and Associates, PC (TCBA) and Altmayer Consulting, Inc. submitted an interim report following a review of the Chief Administrative Office's (CAO) budget methods and practices (attachment). This memorandum provides our response to the report. In general, while we concur with the findings and recommendations, we have provided additional clarification where appropriate.

**Background**

On May 21, 2002, on motion of Supervisor Antonovich, your Board instructed the Auditor-Controller (Auditor) to retain an outside accounting firm to conduct an audit of the County's budgeting practices as they relate to the Sheriff's Department and the use and computation of salary savings in the Sheriff's and the District Attorney's (DA) budgets. On December 12, 2002, the Auditor entered into a project agreement with TCBA to conduct the 2002-03 Sheriff's Budget Study. Study objectives included the review of: 1) the budget methods and practices of the CAO in general and in particular as they relate to the Sheriff, including the CAO's year-to-year consistency in applying budget methods and practices as they relate to the Sheriff; 2) the methods and practices of the Sheriff in developing annual budgets; 3) the Sheriff's overall budget performance for the past five fiscal years; and 4) the contract city billing model developed in the early 1970s.

### **CAO Budget Methods and Practices - Findings and Recommendations**

**Finding 1:** *The study team found that the CAO fairly applied its Budget Instructions in developing the Sheriff's Department Budget.*

**Finding 2:** *During the audit period, the Sheriff's Department did not accurately forecast actual expenditures by appropriation category, nor was the budget amended during the fiscal year to reflect actual expenditures, resulting in year end variances.*

**Recommendation 1:** *The CAO should work collaboratively with the Sheriff to ensure that their budget more accurately predicts actual expenses within level two budget units.*

CAO analysts routinely collaborate with departments to better understand and address expenditure fluctuations to ensure departments operate within their adopted budgets. However, as an elected official the Sheriff may reallocate budgeted resources, as he deems appropriate, to ensure effective law enforcement services are provided to County residents. Mid-year reallocations of funding result in variances between actual expenditures and budget. The audit team attributed these variances to a lack of oversight by the CAO. However, both the CAO and the Auditor were aware of the variances which were reported to your Board as part of the normal budget status reporting process. As a result, while the Sheriff's level two budget units are monitored and tracked throughout the year by the CAO, the Sheriff's expenditures are controlled to the bottom line. We believe it is inappropriate to annually realign the Sheriff's budget to address prior-year spending patterns due to unanticipated or one-time only requirements. However, we will continue to work with the Sheriff's Department to realign the level two budget units, where feasible, to more accurately reflect anticipated requirements and to process mid-year appropriation adjustments when feasible.

**Recommendation 2:** *The CAO should continue its efforts to explicitly quantify and highlight the impacts of anticipated expense components of significant growth.*

The multi-year budget forecast is an essential tool used in determining the impact significant cost increases, unfunded liabilities, and revenue fluctuations will have on the County's General Fund. We will continue to improve the methodologies used to develop the multi-year forecast including the projection of areas of significant growth such as worker's compensation and retiree health.

**Finding 3:** *During the audit period, the budgets for the Sheriff and District Attorney overstated the number of positions expected to be filled during the course of the fiscal year. The salary savings component of the budgets were artificially inflated to balance S&EB costs.*

**Recommendation 3:** *The CAO should adopt a more objective methodology for calculating salary savings and mandate that departments more accurately state budgeted positions they reasonably anticipate filling during the budget year.*

On February 5, 2002, your Board instructed the CAO to review the issue of salary savings for the DA and Sheriff and to report back with recommendations on how to reduce each Department's salary savings requirement. The CAO issued a report on February 12, 2002, which indicated that salary savings had been used in the past as a negotiating tool between the CAO and departments. Specifically, in the case of the Sheriff's Department, the CAO and the Sheriff mutually agreed to adjust salary savings to add budgeted positions to reconcile to actual staffing. In the Sheriff's 2002-03 and 2003-04 Proposed Budgets, vacant budgeted positions were eliminated to bring the Sheriff's salary savings into alignment.

**Finding 4:** *During the audit period, the CAO used a baseline budget approach in developing departmental budgets. In light of continuing economic instability, this approach may no longer be compatible to address future financial realities.*

**Recommendation 4:** *The CAO should continue its efforts to more fully integrate and align strategic planning and performance measurement within the budget process.*

As the lead Department in the development and implementation of the County's Vision and long-term strategic planning process, the CAO began to incorporate the strategic plan into the budgeting process during fiscal year 2001-02. All program changes reflected in the Proposed Budget include a reference to specific strategic plan goals and objectives. In addition, CAO budget analysts have been working with departments to develop, implement, and include relevant performance measures which tie directly to the strategic plan and effectively measure departmental efforts to achieve desired program outcomes through establishment of realistic service delivery standards. An intensive effort is underway with the Guiding Coalition, CAO and consultants to work with all departments to refine their performance measures to be included in the 2004-05 Proposed Budget in order to better integrate the Strategic Planning and Performance Measures process with the County budget.

**Recommendation 5:** *The CAO should evaluate the effect of changes to the revenue management strategies for the expenditure of Proposition 172 funds.*

The consultant's report suggests the County should consider placing Proposition 172 revenues into a trust fund for exclusive use by the Sheriff and DA. The purpose of doing so would be to ensure that over realized revenue is preserved in years where the actual amount of revenue received exceeds the budgeted amount.

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Currently, the Auditor posts all Proposition 172 revenue directly to the Sheriff's and DA's budgets. As reflected in the 2003-04 Proposed Budget, Proposition 172 revenues continue to decline, so surplus revenue does not exist. Further, the General Fund absorbed this reduction rather than forcing the Sheriff or DA to take a curtailment.

In the future, should a surplus be realized, the CAO will consider and recommend implementation of revenue management strategies for the use of surplus Proposition 172 revenue for Board policy consideration.

### **Summary**

We will continue to refine CAO budget methods and practices to ensure implementation of Board policies where appropriate. We appreciate the opportunity to participate in the study of the County's budget process and to respond to the interim report. Please let me know if you have any questions or your staff may contact Debbie Lizzari at (213) 974-6872.

DEJ:SRB:DL  
RG:BAM:ljp

Attachment

c: Auditor-Controller

audit.bm